Fiscal Note

BILL # HB 2888

TITLE: ready-to-drink spirits products; tax

SPONSOR: Biasiucci

STATUS: As Introduced

PREPARED BY: Nate Belcher

Description

Under current law, spirituous liquor is subject to luxury tax at a rate of $3 per gallon. The bill establishes a new statutory category of alcoholic beverages called "ready-to-drink spirits products" and sets the luxury tax rate for this new category at a rate proportionate to $3 per gallon for the amount of spirituous liquor in these beverages. This new category consists of distilled spirits mixed with other beverages, which do not exceed 10% alcohol by volume (ABV) and that are sold in the manufacturer's sealed, original packaging of no greater than 16 ounces.

The bill would become effective on the first day of the month following the general effective date.

Estimated Impact

We estimate that HB 2888 would reduce luxury tax revenues by $(2.2) million per year. Given the distribution formula for spirituous liquor tax revenues, this reduction would be allocated as follows: $(1.5) million for the General Fund, $(0.4) million for the Corrections Fund, $(0.2) million for the Drug Treatment and Education Fund, and $(67,000) for the Corrections Revolving Fund.

Analysis

According to the Department of Revenue, beverages which are commonly referred to as "canned cocktails" or "ready-to-drink cocktails" are currently taxed at the spirituous liquor luxury tax rate of $3 per gallon because they fall under the current definition of spirituous liquor. Under HB 2888, these products would instead fall under a new category called "ready-to-drink spirits" with an identical luxury tax rate of $3 per gallon, but this rate would only apply to the volume of spirits mixed into a beverage instead of to the entire beverage volume. The bill would not impact other similar products such as "hard seltzers", as those are classified in a separate category of malt-based products due to being created through the fermentation process.

The Distilled Spirits Council of the United States reports that $2.8 billion of ready-to-drink (RTD) cocktails were sold across the United States in 2023. According to the Council, the RTD cocktails market is the fastest growing spirits category by revenue, with an increase of 35.8% in 2022 and 26.8% in 2023. Based on the current growth trend, we estimate that nationwide revenue from the sales of RTDs will reach $3.3 billion in 2024. Assuming that Arizona's share of the national RTD cocktails market is proportionate to its 2.2% of the national population, as estimated by the Census Bureau, we project that Arizona will have about $73 million [= $3.3 billion x 2.2%] in total RTD cocktails sales in 2024.

According to data reported by *SevenFifty Daily*, an online magazine that covers the business and culture of the alcoholic beverage industry, 12-ounce containers made up 31% of RTD cocktail sales volume in 2021, up from 7% in 2019. Assuming that this trend has continued after 2021, we estimate that 40% of RTD cocktail sales in 2024 will include containers no larger than 16 ounces. Based on this estimate, we project that the amount of RTD sales in Arizona subject to the tax rate under the bill would be $29.2 million [= $73 million x 40%] in 2024.

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Given that 4-packs of 12-ounce cans are typically priced at around $10 to $14 in Arizona, we estimate an average retail price of $12 per 4-pack, or $32 per gallon for RTD cocktails in single-serving containers. Applying the average retail price of $32 per gallon to our projected sales base of $29.2 million yields an estimated RTD cocktails sales volume subject to the tax rate under the bill of about 912,500 gallons in Arizona in 2024.

Currently, RTD cocktails are taxed at $3 per gallon of final product. Under the bill, these products would be taxed at a fraction of $3 per gallon depending on the proportion of spirits to the total volume of the drink not to exceed 16 ounces. Our research suggests that the ABV of RTD cocktails typically range between 5% and 10%. For the purpose of this analysis, we have assumed that the average 12-ounce can has an ABV of 7.5%, consisting of 2.25 ounces of liquor (with an ABV of 40%) and 9.75 ounces of a non-alcoholic mixer. Based on this assumption, the average luxury tax rate under the bill would be $0.5625 per gallon [= 2.25 oz. / 12.0 oz. x $3 per gallon], which is $(2.4375) less per gallon than under current law. Applying this $(2.4375) per gallon tax reduction to the 912,500 gallons of RTD spirits sales volume yields an estimated revenue reduction of $(2.2) million in 2024.

Under current law, these products are taxed under the spirituous liquor category, which is distributed as follows: 70% to the General Fund, 20% to the Corrections Fund, 7% to the Drug Treatment and Education Fund, and 3% to the Corrections Revolving Fund. According to our discussion with Legislative Council, those revenues would likely be distributed using the same formula as spirituous liquors, but the bill does not currently specify a distribution schedule for RTD spirits revenues.

Local Government Impact

None

2/9/24